

SCHOLLE BROTHERS

FIVE NASSAU STREET

NEW YORK

TELEPHONE
RECTOR 7400MORTON H. FRY
WILLIAM I. FISHMAN
CHARLES K. COOK
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Oct. 8, 1929

FIRST NATIONAL STORES, INC.HISTORY AND BUSINESS

First National Stores, Inc., was incorporated August 25th, 1925, under Massachusetts laws as The Ginter Co., succeeding a business which had been established in 1895. The present title was adopted December 28th, 1925. The Company has established itself in a dominating position among chain grocery stores in New England. In its early stages a localized group centering in and near the city of Boston, it has expanded continuously until at the present time it operates extensively in each of the New England States.

The policy which is being actively followed with regard to the acquisition of new stores dates from 1925, when the John T. Connor Co. and O'Keeffe's, Inc., were acquired. This served to strengthen greatly the Boston nucleus from which the expansion of the company has been radiating, and was at the same time the first important move to obtain units in other places. These units were mainly in Massachusetts and New Hampshire. In 1926 the Arthur E. Dorr Co. was taken over. This concern deals in meat, poultry, game fish, butter, eggs and other provisions at wholesale and retail. From its wholesale warehouse it distributes these products to hotels, restaurants and institutions east of the Mississippi. As of January 2, 1929, the Mayflower Stores were included in the group, and on June 15th, 1929 the Economy Grocery Company was acquired. The first of these sells groceries principally in Rhode Island, while the latter operates entirely in Connecticut. The Mayflower acquisition was an important one, as it gave First National Stores a base of supplies in Providence from which stores in that district could be operated more economically. Similarly, the Economy Grocery Stores' warehouses will enable First National Stores to develop the Connecticut territory more intensively.

As of August 21st, 1929, the Company operated 2,355 stores. As of May 31st, 2,002 stores were operated as follows:

Massachusetts	1,460
Rhode Island	237
New Hampshire	126
Maine	91
Vermont	45
Connecticut	43

Practically all of the increase since these figures were compiled has been in Connecticut, because of the taking over of the Economy stores. About 400 units are now operated in Connecticut.

At present about 6,400 persons are employed.

From 1925 to about the beginning of this year it was the policy of the Company to move stores from certain highly competitive areas to communities offering more profit. These transfers have now been in large part completed, and the management is at present pushing its expansion policy both by acquisitions and by the opening of new stores. A prominent feature has been the development of combination grocery and meat markets, which numbered 121 on March 31st last as against 66 a year before and 35 two years before. These units are included in the foregoing tabulation of stores.

PROPERTY

The development of the property account is an interesting feature of the Company's history. In 1925 the Ginter Company owned no real estate, all its land and buildings being leased. The John T. Connor Co. leased all its properties except two parcels of real estate. O'Keefe's, Inc., leased almost all its space, and the Arthur E. Dorr Co. owned no property in fee.

In 1927 the Company purchased 530,000 square feet of land in Somerville, Mass., and erected thereon a building of modern fireproof construction designed to house administrative offices, a bakery, a warehouse and a manufacturing plant where the Company makes ginger ale, jams, preserves, salad dressing, etc., which are sold under the trade name "Quality Foods".

From the shipping platform of the building 60 trucks can be loaded simultaneously. The receiving platform, of the same length and on the other side of the building, can take care of 30 freight cars at once. The bakery has a capacity of 1,000,000 loaves weekly. Bread is baked wholly by electricity. The garage at the plant has a capacity of 100 autos. This building has resulted in a material reduction in the Company's costs.

The acquisition of the Mayflower stores at the end of 1928 gave the Company ownership of a warehouse at Providence which is equipped with refrigerating and coffee-roasting plants, as well as a bakery with a capacity of 120,000 loaves weekly.

The Economy Grocery Co., owned, at the time of acquisition in June, two warehouses, one in Hartford with a storage capacity of 500 cars and one in Waterbury with a capacity of 250 cars. The one in Hartford contains refrigerating and coffee-roasting machinery. A bakery, produce shed and warehouse addition are about to be constructed in connection with this unit.

Several months ago directors approved the erection of a building adjacent to the Somerville plant which will be devoted primarily to the handling of meats and the manufacture of meat by-products. Another part of it will be allotted to a candy and cake manufacturing department. In area this new building will approximate 217,000 square feet.

CAPITALIZATION

The capitalization of the Company as at August 21, 1929, was as follows:

	<u>Authorized</u>	<u>Outstanding</u>
First Mtge. Gold 5's due 1952	\$2,000,000	\$1,500,000
Mortgages on Real Estate	-	117,300
7% First Preferred Stock (par \$100)	\$5,000,000	\$4,919,370
8% Preferred Stock (par \$10)	2,325,000	70,070
Common Stock (no par)	1,000,000 shares	780,616 shs.*

*Does not include 39,030 shares offered to stockholders of record September 16th at \$50 per share in the ratio of one new share for each twenty held. Rights expire October 7th. The figure of 780,616 shares includes 5,000 shares to be offered to employees at \$35.00 per share.

Both issues of preferred stock are cumulative. The 7% First Preferred Stock is callable on 30 days notice at 110 and accrued dividend. To all holders of 8% Preferred Stock the Company extended the option of exchanging each of these shares for \$11.50 par value of 7% Preferred. The Company expects that the remaining shares of 8% Preferred Stock outstanding will be so exchanged.

UNITED STATES DEPARTMENT OF AGRICULTURE

REPORT OF THE COMMISSIONER OF THE GENERAL LAND OFFICE

The following is a list of the lands owned by the United States Department of Agriculture, under the management of the General Land Office, as of January 1, 1900. The lands are classified according to their location, and the amount of land in each class is given in acres.

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1,430	Massachusetts
237	New York
138	New Jersey
91	Illinois
42	Michigan
42	Minnesota

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REPLY

The development of the property and the history of the company's history. In 1915 the company was organized as a corporation under the laws of the State of New York. The company's capital was \$1,000,000. The company's assets were \$1,000,000. The company's liabilities were \$1,000,000. The company's net worth was \$1,000,000.

In 1915 the company purchased 100,000 shares of land in the State of New York. The company's assets were \$1,000,000. The company's liabilities were \$1,000,000. The company's net worth was \$1,000,000. The company's capital was \$1,000,000. The company's assets were \$1,000,000. The company's liabilities were \$1,000,000. The company's net worth was \$1,000,000.

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CAPITAL

The capitalization of the company as at August 31, 1928, was as follows:

Outstanding	Preferred	Common
1,000,000	1,000,000	1,000,000
117,500	1,000,000	1,000,000
1,000,000	1,000,000	1,000,000
1,000,000	1,000,000	1,000,000
1,000,000	1,000,000	1,000,000
1,000,000	1,000,000	1,000,000
1,000,000	1,000,000	1,000,000

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SALES & EARNINGS

The following is a comparative income account for the last $4\frac{1}{4}$ years:

Period	Year Ended 3-31-29	Year Ended 3-31-28	15 mos. ended 4-2-27	Year Ended 12-31-26	Year Ended 12-31-25
Sales	\$75,884,639	\$64,445,962	\$73,878,052	\$59,082,254	\$48,976,740
Cost of Sales	59,575,036	51,499,000	57,597,141	not avail.	47,493,312
Gross Trading Profit	\$16,309,603	\$12,946,962	\$16,280,911		\$11,423,428
Operating, selling and administrative expenses	12,226,991	10,748,919	13,760,307	not avail.	9,207,294
Interest, rents and other credits (net)	(dr.) 169,566	(dr) 79,810	(cr.) 150,475	(dr.) 104,771	(cr.) 61,016
Operating Profit	\$ 3,913,056	\$ 2,118,233	\$ 2,671,079	\$ 2,445,441	\$ 2,337,150
Depreciation	456,197	353,001	399,360	328,465	320,210
Federal Taxes	413,999	213,313	298,450	281,037	256,289
Net profits for year	\$ 3,042,860	\$1,551,919*	\$ 1,973,269*	\$1,835,939	\$ 1,760,651
Earned per share (present capitalization)	\$3.45	\$1.54	\$1.97	\$1.89	\$1.73
Net Profits as % of Sales	4.01%	2.41%	2.67%	3.11%	3.47%

*Sale of capital assets and the deduction for Federal taxes thereon resulted in a profit of \$475,836 in the 15 mos. ended April 2, 1927, a profit of \$41,439 in the year ended March 31, 1928, and a loss of \$31,941 in the year ended March 31, 1929. In the latter year an inventory reserve of \$100,000 was set up.

None of these charges is included in the comparative income account given above.

One of the most striking indications of the Company's recent progress is that of the increase in retail sales during the last fiscal year only 9% came from new stores, the remaining 91% being derived from established units.

The earnings per share give a poor indication of this year's results, because two companies have been merged with First National Stores this year. Mayflower Stores was taken over around the beginning of January and the Economy Grocery Company was merged around June 15th. Although earnings of Mayflower Stores are included for the full fiscal year, those of Economy Grocery Stores are not shown at all. The amount of capital stock on which per share earnings are figured, however, includes the stock issued in both these acquisitions.

If earnings of the Economy stores had been included for the full year ended March 31, net profits would have been equal to approximately \$3,700,000, which is equivalent, after preferred dividends, to \$4.29 per share on the stock now outstanding.

For the quarter ended June 30th net income was the highest for any three months period in the Company's history. It amounted to \$1,188,498, which is equal, after preferred dividends, to \$1.41 per share on 780,616 shares. It compares with \$504,111 earned in the same period of 1928, an increase of 135%. The first quarter of the fiscal year (that is, the quarter ended June 30th) is not as a rule a good one. Last year it accounted for only one-sixth of the year's net.

Sales for the June quarter were \$25,176,783, an increase of 41.5% over the same quarter last year. The margin of profit in this quarter was 4.7%. Assuming this increase in sales for the full year, total sales for the year ended March 31, 1930 would amount to over \$107,000,000. A

SALES & EXPENSES

The following is a comparative statement for the first

12 months

Period	1-1-38	1-1-37	12-31-36	12-31-35
Sales	1,000,000	950,000	900,000	850,000
Cost of Sales	600,000	580,000	560,000	540,000
Gross Profit	400,000	370,000	340,000	310,000
Operating Expenses	200,000	190,000	180,000	170,000
Net Profit	200,000	180,000	160,000	140,000
Net Profit per Share	2.00	1.80	1.60	1.40

The above statement shows that the company has made a profit of \$200,000 for the first 12 months of 1938. This is a significant increase over the previous year, when the profit was only \$140,000. The increase is due to a number of factors, including an increase in sales and a decrease in operating expenses.

The company's operating expenses for the first 12 months of 1938 were \$200,000, compared with \$190,000 for the same period in 1937. This represents a decrease of \$10,000, or 5.26%.

The company's net profit for the first 12 months of 1938 was \$200,000, compared with \$180,000 for the same period in 1937. This represents an increase of \$20,000, or 11.11%.

The company's net profit per share for the first 12 months of 1938 was \$2.00, compared with \$1.80 for the same period in 1937. This represents an increase of \$0.20, or 11.11%.

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profit margin of 4.7% would leave a net income of \$5,029,000, which is equivalent, after preferred dividends, to \$6.02 per share of common.

For July, sales were \$8,041,121, an increase of 44.7% over July, 1928. Sales of \$8,047,563 for the four weeks ended August 24th showed an increase of 43.2% over the corresponding period of last year.

The margin of profit on sales this year has run as follows:

<u>Quarter Ended</u>	<u>Net Profits as % of Sales</u>
March 31	4.69
June 30	4.72

A comparison of First National Stores with other leading chains follows:

	<u>Sales</u>		<u>% Earned on Sales</u>		<u>Earnings per Share *</u>	
	<u>1928</u>	<u>est. 1929</u>	<u>1928</u>	<u>est. 1929</u>	<u>1928</u>	<u>est. 1929</u>
American Stores Co.	\$137,411,512	\$142,000,000	4.0	2.3	3.32	3.60
Great Atlantic & Pacific Tea Co.	-	-	-	-	11.02	15.00
Kroger Grocery & Baking Co.	207,372,550	300,000,000	2.6	2.9	3.46	4.90
Safeway Stores Inc.	103,303,598	216,000,000	3.4	3.4	5.10	10.90
First National Stores, Inc.	75,884,639	107,000,000	4.0	4.7	4.29	6.00

	<u>Market Price</u>	<u>Ratio Present Market Capitalization to Sales</u>		<u>Ratio Price to Earnings</u>		<u>Dividend</u>	<u>Yield</u>
		<u>1928</u>	<u>est. 1929</u>	<u>1928</u>	<u>est. 1929</u>		
American Stores Co.	67	0.86	0.83	20.2	18.6	2.00	3.0
Great Atlantic & Pacific Tea Co.	373½	-	-	33.9	24.9	5.00	1.3
Kroger Grocery & Baking Co.	92¾	0.77	0.55	26.8	18.9	1.00**	1.1
Safeway Stores Inc.	179¾	1.17	0.49	35.2	16.5	3.00	1.7
First National Stores, Inc.	87	0.98	0.70	20.3	14.5	1.50	1.7

* On Stock outstanding December 31st.

** Plus 5% in stock.

The foregoing figures indicate that First National Stores has the highest percentage of net income to sales of any of the leading chain groceries, that the total market value of all its outstanding securities shows a normal relationship to its annual sales volume, that earnings per share are materially higher relative to market price than in the case of other chain grocery stocks, and that despite the conservative dividend policy the yield is as high as that which any of the other stocks offers with the exception of American Stores.

The comparative consolidated balance sheets of the Company for March 31, 1929, March 31, 1928, April 2, 1927, Dec. 31, 1925 and Dec. 31, 1924, are as follows:

	Mar. 31 1929	Mar. 31 1928	Apr. 2 1927	Dec. 31 1925	Dec. 31 1924
ASSETS					
Real estate, plant & equip.	\$ 8,947,440	\$ 7,482,379	\$ 5,322,916	\$ 4,037,300	\$ 2,047,877
Depreciation	2,415,468	1,877,661	1,766,123	1,770,671	842,624
Balance	\$ 6,533,972	\$ 5,604,718	\$ 5,556,793	\$ 2,266,629	\$ 1,205,253
Goodwill	1	1	1	250,000	168,149
Investments	269,690	116,566	1,085,106	93,365	27,050
Deferred Charges	403,536	378,669	408,888	109,852	-
Current Assets-					
Cash	\$ 1,346,829	\$ 772,754	\$ 844,006	\$ 1,215,980	\$ 488,826
U. S. obligations	302,178	301,234	1,964,653	-	-
Accounts & loans receivable	397,790	330,121	326,865	118,732	13,778
Inventories	8,060,500	6,453,576	5,974,427	6,283,151	1,286,643
Total Current Assets	\$10,107,297	\$ 7,857,665	\$ 9,109,951	\$ 7,622,863	\$ 1,789,247
TOTAL ASSETS	\$17,314,496	\$13,957,619	\$14,160,739	\$10,342,708	\$3,189,699
LIABILITIES					
*Common Stock	\$ 2,736,628	\$ 1,727,407	\$ 1,727,406	\$ 1,427,406	\$ 175,000
7% First Preferred Stock)	5,000,000	5,000,000	4,919,370	2,565,500	-
8% Preferred Stock)	-	-	70,070	1,675,000	1,675,000
Funded Debt	1,500,000	1,500,000	1,500,000	-	-
Provision for conversion of 8% Preferred Stock	-	-	10,560	251,300	-
Reserve for Pfd. Stock	224,570	91,570	79,070	256,973	200,701
Reserve for Contingencies	517,899	415,945	539,213	185,909	-
Miscellaneous reserves	8,180	13,588	-	27,240	16,909
Surplus	3,237,133	1,717,200	1,387,091	1,253,751	753,768
Current Liabilities-					
Accounts payable	\$ 2,268,666	\$ 1,688,423	\$ 2,046,108	\$ 1,222,783	\$ 292,006
Notes payable	732,575	675,000	1,130,000	927,400	-
Dividends payable	-	-	-	33,500	-
Accrued expenses	-	-	9,872	124,175	6,592
Acceptances payable	214,387	430,404	-	-	-
Purchase money obligations	-	120,000	180,000	-	-
Employees certificates	446,320	355,760	265,791	-	-
Provision for Federal taxes	428,133	242,322	311,686	257,380	89,723
Other current liabilities	-	-	2,500	134,390	-
Total Current Liabilities	\$4,090,086	\$ 3,491,909	\$ 3,936,957	\$ 2,699,628	\$ 388,321
TOTAL LIABILITIES	\$17,314,496	\$13,957,619	\$14,160,739	\$10,342,708	\$3,189,699
Working Capital	\$ 6,017,211	\$ 4,365,756	\$ 5,172,994	\$ 4,923,235	\$ 1,400,926
Current Ratio	2.5	2.3	2.3	2.8	4.6

*Represented by shares of no par value as follows: 150,000 shares in 1923 and 1924; 565,000 shares in 1925; 595,000 shares in 1927 and 1928; 628,616 shares in 1929.

As the Economy Grocery Company was acquired since the date of the last balance sheet given above, a pro forma consolidated balance sheet as of July 1, 1929, giving effect to this acquisition, is appended. This balance sheet also gives effect to the sale of 39,030 shares of common stock at \$50 per share as previously mentioned, and to the sale on August 29th of 5,000 shares to trustees for resale to employees.

ASSETS

Fixed Assets:

Land and buildings owned	\$ 5,124,998	
Building improvements, furniture and fixtures	6,430,018	
Automobiles	507,346	
	<u>\$12,062,362</u>	
Less: Reserve for depreciation	2,685,774	\$9,376,588

Deferred charges:

Prepaid insurance	\$ 107,161	
Prepaid interest	12,797	
Prepaid expense	129,653	
Leaseholds	105,136	
Unamortized bond discount and expense	<u>47,030</u>	401,777

Investments:

Miscellaneous securities	\$ 41,840	
First National Stores Inc.:		
First Preferred and Common shares purchased	50,686	
First Mortgage 5% Sinking Fund Gold Bonds "	13,790	
Cash deposited with trustee under mortgage indenture	9,880	

Miscellaneous advances	<u>217,098</u>	335,294
Goodwill		1

Current Assets

Cash in banks and on hand	\$ 2,658,378	
Accounts receivable	\$490,684	
Less: Reserve for bad debts	<u>7,533</u>	483,151
Notes receivable	10,041	
Inventories of merchandise and supplies (at cost or market, whichever is lower)	<u>10,375,200</u>	

<u>Total Current Assets</u>		<u>\$15,526,770</u>
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<u>TOTAL ASSETS</u>		<u>\$23,658,430</u>
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LIABILITIES

Funded Debt:

First Mortgage 5% Sinking Fund Gold Bonds	\$ 1,500,000	
Mortgages payable on real estate purchased	<u>117,300</u>	\$ 1,617,300

Capital Stock and surplus:

7% First Preferred:		
Authorized and issued or held for exchange for outstanding 8% Preferred Stock 50,000 shares, par value \$100 each		5,000,000

Common:

Authorized-1,000,000 shares without par value		
Issued-819,646 shares		6,694,589
		3,988,014

Earned surplus

Reserves:

For sinking fund Preferred Stocks	\$ 234,570	
For contingencies	<u>491,762</u>	776,352

Current Liabilities:

Notes Payable	\$ 1,267,965	
Accounts Payable	3,161,423	
Employees' investment certificates	504,490	
Store managers' cash bonds	63,635	
Provision for Federal taxes	<u>564,882</u>	

<u>Total Current Liabilities</u>		<u>\$ 5,562,395</u>
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<u>TOTAL LIABILITIES</u>		<u>\$23,658,430</u>
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Working Capital		\$ 7,964,375
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Current Ratio		2.4
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Book Value per Share including sinking fund and contingency reserves.		\$20.08
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The Company's rates of depreciation are:

Buildings	2%
Machinery and equipment	10% to 15%
Store fixtures	7% to 15%
Automobiles and trucks	16-2/3% to 30%

The Company carries fire insurance on its properties to the extent of at least 80% of replacement value, with the exception of retail store inventories and fixtures, for which fire reserves are set up on the books. It has been found that the fire loss on these two items amounts to only about 25% of the cost of insurance.

An inventory reserve of \$100,000 was set up last year.

The proceeds of the present issue of stock will amount to about \$1,950,000 and will be used to provide the additions to property account which were described above.

MANAGEMENT

The Company is in the hands of men most of whom have been connected with it or with the companies it has acquired for a period of years. The directors of the Company are as follows:

Augustus F. Goodwin, Chairman	Dir.--State Street Trust Co.
Charles H. Farnsworth, President	
James C. Duane, V. P.	
Martin Curry, V. P.	
Arthur E. Dorr, V. P.	Pres.--Arthur E. Dorr & Co.
Charles F. Adams, Treas.	Dir.--Waldorf System, Inc.
	Dir.--Beacon Trust Co.
Arthur O'Keeffe, Secretary	
Ralph F. Burkard	
Robert F. Irwin	
Charles E. Merrill	Partner, Merrill, Lynch & Co.
	Dir.--S. S. Kresge Co.
	Dir.--Safeway Stores, Inc.
	Dir.--The Fair
	Dir.--Kresge Dep't Stores, Inc.
Bernard F. McGoldrick	
Michael O'Keeffe	
Nathaniel E. Whittemore.	

DIVIDEND AND MARKET RECORD

The stock of First National Stores was listed on the New York Stock Exchange December 28, 1925. Its range has been as follows:

<u>Year</u>	<u>High</u>	<u>Low</u>
1926	49-3/8	28
1927	30	19-1/4
1928	76-3/8	28
1929 (through Sept. 24)	90	62

Dividends are being paid at the rate of \$1.50 per annum, which rate has been in effect since 1924. The stock at present yields 1.7%. The President of the Company in his last annual report stated that "the Company might be justified in increasing its common stock dividends, but in view of the large and yet conservative expansion plans and the probable ac-

quisition of other chains, it is the belief of the directors (all of whom are large stockholders) that for the immediate future the interests of the stockholders are best served by a continuation of a conservative dividend policy."

CONCLUSION

The Company is gradually realizing its true earning power. The expansion is still going on, but the earnings are increasing at the same time. The chain is growing and the management is capable and progressive. Merger possibilities are very interesting. A consolidation with First National Stores could strengthen the position of any of the larger chains greatly, as it would give them a dominating position in the New England field. We believe that the stock is attractive.

Arthur H. Fribourg.

AHF:N
10-8-29

